February 27, 2024

Gigaplex Estate Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan 1	150.0	140.0	[ICRA]AA+ (Stable); reaffirmed
Long-term Fund-based – Term loan 2	210.0	220.0	[ICRA]AA+(Stable); reaffirmed
Total	**360.0**	**360.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for the bank facilities of Gigaplex Estate Private Limited (GEPL) continues to factor in the strength of the promoter, with the entity being a part of Mindspace Business Parks REIT (Mindspace REIT, rated [ICRA]AAA (Stable)) and its strategic importance for the parent. GEPL contributes to 13% of Mindspace REIT's consolidated net operating income (NOI) for 9M FY2024 and around 16% of the REIT's market value as on December 31, 2023. ICRA notes that certain assets of GEPL have been encumbered for the secured borrowings at Mindspace REIT. The rating also favourably factors in GEPL's comfortable debt coverage metrics, despite the increase in debt[1] levels to Rs. 1,930.2 crore as on December 31, 2023, compared to Rs. 1,491.5 crore as of March 31, 2023, which was primarily used for the replacement of debt from other related parties/group companies. The five-year average debt servicing coverage (DSCR) for FY2024-FY2028 is expected to remain comfortable at above 1.5 times supported by healthy rental inflows.

The rating factors in GEPL's established business position, with a favourably located commercial asset in Airoli, Mumbai, which has a completed area of 4.9 million square feet (msf). The under-development area of 0.3 msf in the property includes a built-to-suit data centre for the Princeton Digital Group, which is fully pre-leased. The existing tenant profile is strong and is spread across diversified sectors, with lease tenures ranging between 3 to 15 years, ensuring rental visibility over the near to medium term.

The rating, however, remains constrained by the market risk wherein the property's committed occupancy level stood moderate at 72.6% as of December 2023. While the rental rates for GEPL's property are competitive, the overall vacancy is primarily attributable to the sizeable SEZ area in the property. ICRA is given to understand that GEPL has plans to opt for floor-wise denotification of vacant SEZ spaces of 0.4 msf. Consequently, the occupancy levels of the property are expected to improve in the medium term. The rating also considers the moderate tenant concentration risk, wherein the top five tenants contribute to ~44% of the rental income. Nonetheless, the strong tenant profile of the business park, low competition in the vicinity, and significant investments in fit-outs mitigate the tenant concentration risks to some extent. The recent increase in debt would result in an increase in debt-to-NOI to ~7.0 – 7.2 times by March 2024. However, it is expected to be reduced and reach below 6.3 times by March 2025.

The Stable outlook on the rating reflects ICRA's expectation that the company's occupancy levels will improve in the medium term and the company will maintain adequate leverage and comfortable debt coverage metrics.

[1] Includes debt from Mindspace REIT and external debt at SPV level

Key rating drivers and their description

Credit strengths

Strength derived from parentage and status as a strategically important SPV of Mindspace REIT – GEPL's entire stake has been held by Mindspace REIT since August 2020. The asset portfolio under REIT includes some of the major business parks in Mumbai, Hyderabad, Pune and Chennai, with a reputed and diversified tenant mix comprising leading multi-nationals and Indian corporates. REIT's portfolio includes a completed office space area of 26.2 msf, under-construction and a future development potential of 7.0 msf. GEPL contributes to 13% of Mindspace REIT's consolidated NOI for 9M FY2023 and around 16% of the REIT's market value as on December 31, 2023.

Comfortable debt coverage metrics despite increase in debt levels – The company's debt[2] increased to Rs. 1,930.2 crore as on December 31, 2023 compared to Rs. 1,491.5 crore as on March 31, 2023, which was primarily utilised for the replacement of debt from other related parties/group companies. Despite the increase in total debt levels, the company's coverage metrics, as reflected by the five-year average DSCR, are expected to remain comfortable at above 1.5 times in the medium term supported by healthy rental inflows.

Strong tenant profile - The commercial asset is favourably located in Airoli, Mumbai, having a completed area of 4.9 msf. The under-development area of 0.3 msf includes a built-to-suit data centre for the Princeton Digital Group, which is 100% pre-leased. The existing tenant profile is strong and spread across diversified sectors, with lease tenures ranging between 3 to 15 years, ensuring rental visibility in the near to medium term.

Credit challenges

Exposure to market risks – The project is exposed to market risk as the property's committed occupancy level stood moderate at 72.6% as of December 2023. While the rental rates for GEPL's property are competitive, the overall vacancy is primarily attributable to the sizeable SEZ area of the property. ICRA is given to understand that GEPL has plans to opt for floor-wise de-notification of vacant SEZ spaces of 0.4 msf. Consequently, the occupancy levels of the property are expected to improve in the medium term.

Moderate tenant concentration risk – At present, the top five tenants contribute to around 44% of the rental income thereby leading to moderate lessee concentration risks. The biggest tenant is Princeton Digital Group India Management Pt. Ltd, occupying 18% of the leased area. Nonetheless, the business park's strong tenant profile, low competition in the vicinity and significant investments in fit-outs mitigate the tenant concentration risks to some extent.

Liquidity position: Adequate

GEPL's liquidity position will be supported by stable rental income from its assets and low operational expenditure in the leasing business. The company has Rs. 2.8 crore and Rs. 7.0 crore of principal repayments in Q4 FY2024 and FY2025, respectively, which can be met through the cash flow from operations. Additionally, the planned capex of Rs. 128 crore during Q4 FY2024 – FY2025 is expected to be funded through debt.

Rating sensitivities

Positive factors – ICRA could upgrade GEPL's rating if there is a significant ramp-up in occupancy levels and increased scale of operations, with continued improvement in average rentals leading to the increased share of NOI in REIT's overall portfolio.

[2] *Includes debt from Mindspace REIT and external debt at SPV level*

Negative factors – ICRA could downgrade GEPL's rating if a significant increase in borrowings or a decline in the net operating income increases the total debt/annualised NOI to above 7.0 times, on a sustained basis. Further, any deterioration in the credit profile of the Mindspace REIT might have a bearing on GEPL's rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Lease Rental Discounting (LRD)
Parent/Group support	Parent company: Mindspace Business Parks REIT ICRA expects that GEPL's parent will be willing to extend financial and operational support, if required, given the strategic importance of GEPL to the REIT Group, and the significant contribution of the SPV to the overall EBITDA and valuation of the Group.
Consolidation/Standalone	Standalone

About the company

Incorporated in August 1990, Gigaplex Estate Private Limited was promoted by the CL Raheja Group and was earlier owned by K Raheja Corp (85%) and Blackstone (15%). The company was acquired by Mindspace Business Parks REIT in August 2020 and is now a 100% subsidiary of the REIT. As on date, the company has a commercial project named Mindspace Airoli West with a total leasable area of 5.2 msf, of which 4.9 msf has been completed with a committed occupancy of 72.6% as of December 2023. The remaining 0.3 msf is an under-construction data center, which is 100% pre-leased.

Key financial indicators (audited)

GEPL	FY2022	FY2023	9M FY2024*
Operating income	204.6	247.7	259.5
PAT	-28.4	-70.3	-6.5
OPBDIT/OI	70.8%	63.9%	70.6%
PAT/OI	-13.9%	-28.4%	-2.5%
Total outside liabilities/Tangible net worth (times)	15.0	34.2	38.5
Total debt/OPBDIT (times)	12.0	12.0	7.9
Interest coverage (times)	1.5	1.3	1.5

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Feb 27, 2024	Jan 30, 2023	Dec 31, 2021	Sep 02, 2021	-
1	Term loan 1	Long term	140.0	128.6	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
2	Term loan 2	Long term	220.0	75.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan 1	Simple
Long-term fund-based – Term loan 2	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term Loan-I**	July 2021	NA	June 2034	140.0	[ICRA]AA+ (Stable)
-	**Term Loan-II**	Jan 2024	NA	Jan 2039	220.0	[ICRA]AA+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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